

Message Text

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ACTION AF-06

INFO OCT-01 ISO-00 XMB-02 OPIC-03 COME-00 TRSE-00 AID-05

OMB-01 SS-15 SP-02 NSC-05 NSCE-00 SSO-00 CIAE-00

INR-07 NSAE-00 INRE-00 /047 W
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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC IMMEDIATE 6247

C O N F I D E N T I A L KINSHASA 0811

DEPT PASS OPIC, COMMERCE, TREASURY

E.O. 11652: GDS

TAGS: EFIN, EAID, ENRG, CG

SUBJECT: INGA-SHABA COST OVERRUN FINANCING

REF: KINSHASA 1109; B. KINSHASA 0205; C. STATE 011926

1. PLEASE DELIVER FOLLOWING MESSAGE FROM AMBASSADOR CUTLER
TO EXIMBANK CHAIRMAN DUBRUL:

2. QUOTE: THANK YOU FOR YOUR LETTER OF JANUARY 15 IN WHICH
YOU DISCUSS THE PROBLEM OF FINANCING A PORTION OF THE COST
OVERRUN OF THE INGA-SHABA TRANSMISSION LINE. I AM PLEASED
THAT EXIMBANK IS ACTIVELY CONSIDERING THIS APPLICATION AND
ONLY HOPE THAT THE CONDITIONS WHICH YOU STIPULATE CONCERN-
ING A TRUSTEESHIP ARRANGEMENT WILL NOT DELAY COMPLETION OF
THE TRANSMISSION LINE AND THUS INCREASE THE COST OF THE
PROJECT.

3. AS YOU SUGGESTED, WE HAVE DISCUSSED THIS SUBJECT WITH
DAVID MORT OF BUREC AND HE IS IN COMPLETE AGREEMENT WITH
US THAT THE INGA-SHABA TRANSMISSION LINE SHOULD BE
COMPLETED. HE POINTED OUT: (A) MATERIALS CONTRACTED FOR
INGA-SHABA ARE MOSTLY UNIQUE SO THAT CANCELLATION
CHARGES WILL APPROACH, IF NOT EQUAL, ORIGINAL COST;
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(B) PROSPECTS FOR RECOVERY OF THE EXISTING INVESTMENT FOR

THE TRANSMISSION LINE WILL BE EXCEEDINGLY DIFFICULT IF THE LINE IS NOT COMPLETED;(C) ANY DELAY IN PROVIDING FUNDS NECESSARY TO FINANCE THE COST OVERRUN WIL RESULT IN ADDITIONAL EXPENSES WHICH WILL ONLY INCREASE THE SIZE FO THE COST OVERRUN; (D) THERE IS NO REALISTIC ALTERNATIVE OTHER THAN THE INGA-SHABA POWER LINE FOR THE GECAMINES EXPANSION.

4. MORT WOULD PREFER THE ORIGINAL ESTIMATE OF \$150 MILLION, CONSIDERING DELAYS WHICH WILL ALMOST INEVITABLY RESULT FROM THE CURRENT PERSONNEL CUTBACK OF THE CONTRACTORS. HE BELIEVES THAT, WHILE \$135 MILLION IS THEORETICALLY SUFFICIENT, IT DOES NOT LEAVE A CONTINGENCY FOR PROBLEMS WHICH MAY ARISE.

5. OUR PRELIMINARY CONTACTS WITH GOZ OFFICIALS INDICATE THAT THEY ARE AGREEABLE IN PRINCIPLE THAT THE POWER REVENUES DUE FROM GECAMINES AND SMTF SHOULD BE PAID TO A SEPARATE TRUST FUND, THE PROCEEDS OF WHICH WOULD BE USED TO SERVICE THE SEVERAL LOANS. HOWEVER, WE NOTE THAT THERE ARE SEVERAL PROBLEMS WHICH MUST BE RESOLVED. THESE INCLUDE: (A) THE PRESENT ELECTRICITY SUPPLY CONTRACTS ARE DENOMINATED AND PAYABLE IN THE CURRENCY OF ZAIRE; (B) SNEL AS AN AGENCY OF THE ZAIRIAN GOVERNMENT IS NOT AUTHORIZED TO RECEIVE FOREIGN CURRENCY; (C) THE INGA-SHABA PROJECT STUDY SHOWS THAT INCOME FROM THE SALE OF POWER WILL BE INSUFFICIENT TO SERVICE THE LOANS FOR A NUMBER OF YEARS AND THE DEFICIENCY MUST BE MADE UP FROM THE CENTRAL TREASURY OF ZAIRE.

6. NATURALLY I SHARE YOUR CONCERN THAT THE GOZ IS DELINQUENT IN SERVICING PAYMENTS DUE TO EXIMBANK. WE HAVE URGED THEM TO MAKE THESE PAYMENTS ON A TIMELY BASIS AND WILL CONTINUE TO DO SO. FORTUNATELY, THE FINANCIAL AND ECONOMIC PROSPECTS OF ZAIRE APPEAR TO HAVE CONSIDERABLY IMPROVED, THANKS LARGELY TO THE PROSPECTIVE IMF STABILIZATION PROGRAM AND THE ASSISTANCE ZAIRE WILL RECEIVE FROM THE COMPENSATORY FINANCING FACILITY, FIRST CREDIT TRANCHE, AND AVAILABLE PORTION OF OIL FACILITY TOTALING 118 MILLION SDRS. IMF REPRESENTATIVES ARE CURRENTLY MEET-CONFIDENTIAL

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ING IN KINSHASA AND IT IS EXPECTED THAT THEY WILL REACH AN AGREEMENT WITH THE ZAIRIAN GOVERNMENT AT AN EARLY DATE.

7. AGAIN, I WOULD LIKE TO EXPRESS MY APPRECIATION FOR EXIMBANK'S FORTHCOMING ATTITUDE WITH REGARD TO THIS IMPORTANT PROJECT SO VITAL TO THE INTERESTS OF THE GOVERNMENTS OF ZAIRE AND THE UNITED STATES. UNQUOTE.

CUTLER

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Message Attributes

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Margaret P. Grafeld
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